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Money based on the world's goods

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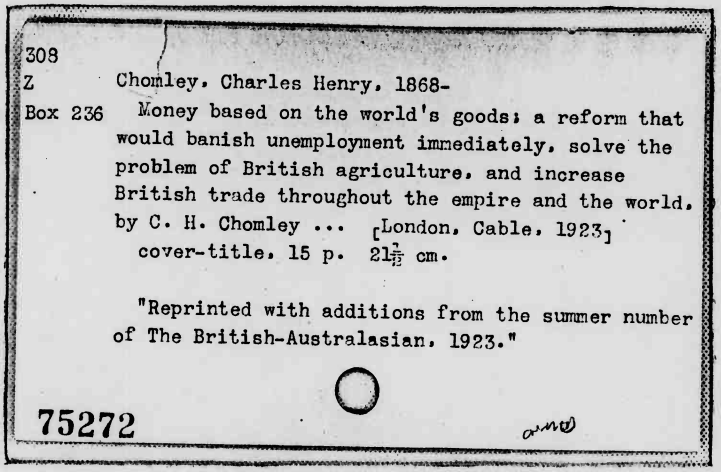

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MONEY BASED ON THE WORLD'S GOODS

A REFORM THAT WOULD BANISH
UNEMPLOYMENT IMMEDIATELY,
SOLVE THE PROBLEM OF BRITISH AGRICULTURE,
AND INCREASE BRITISH TRADE THROUGHOUT
THE EMPIRE AND THE WORLD

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BY

C. H. CHOMLEY

AUTHOR OF
PROTECTION IN AUSTRALASIA AND CANADA

EDITOR OF
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MONEY BASED ON THE WORLD'S GOODS

By C. H. CHOMLEY

DURING the years of the War, when some forty million people in the world were taken away from productive industry to kill one another, or to prepare the ways and means of killing one another most effectively, it is a strange and wonderful fact that there was no poverty and no unemployment. Outside actually beleaguered countries and areas the mass of the people had more food and better clothing and shelter than they had ever enjoyed before. The Salvation Army shelters in London, which in peace time had harboured hundreds of outcasts every night, were practically deserted, and Red Cross hospitals found accommodation in empty workhouses. The labour of the people, with millions of its best and strongest withdrawn to fight or make munitions of war, was so efficiently applied that it fed and clothed and sheltered the civilian workers and the soldiers too. Poverty and distress were banished from the land overshadowed by the grief and horror of war.

Then the soldiers returned and were disbanded. Millions of workers left the munition factories to make useful things instead of shells, and immediately poverty came back; unemployment grew apace; the workhouses filled up again; and poor people starved as they did before the war.

Why should the withdrawal of millions of workers from productive labour abolish poverty? And why, when they were available once more to make wealth, should wealth disappear?

One of the stock answers is that during the war we were drawing upon our capital—living upon the past and the future.

This sounds learned and professional, but it explains nothing. We were not living on the future, for a loaf cannot be eaten, a suit worn, nor a shell fired before it is made. There was no accumulation of these things from the past. The food eaten one day, the shells fired, and the clothes worn, were made the day or the week or the month before. In Australia and New Zealand during the war there were actually being accumulated huge stocks

of wheat and meat and wool, which have hardly been consumed now. Certainly our railways and roads and buildings were falling into disrepair, and they are in disrepair still, but not for want of labour to repair them, for there are a million unemployed. Nor are the means to feed and clothe men engaged in this work wanting, for there is labour available to make everything required to remunerate them, as there was to remunerate soldiers and munition workers during the years of the War.

The Real Cause of Poverty.

The root cause of the depression and poverty now prevailing is not want of capital, but under-consumption of wealth. Consumption is the key to production. Produce goods, and there is no guarantee that they will be consumed. There may be multitudes of people in dire need of them—starving for bread, shivering for want of clothes and fuel—and yet the man who produces these things may be ruined, because not one of the millions who need them can buy. On the other hand, consumption of existing goods is an absolute guarantee that more will be produced for their replacement; and the reason why there was no poverty during the War is that, wasteful and anti-social though nine-tenths of the consumption was, it nevertheless imperiously called forth production and employed men. Those engaged in fighting, or the trades ancillary thereto, had the money to purchase food and clothing, and therefore these things were produced and sold. When the fighting ceased the fighting men and munition workers were no longer paid. They therefore could not buy; production of things that human beings want—houses, clothes, food, furniture, fuel, and the rest—decreased all along the line; the people who had been making them, being no longer paid, could no longer buy, and increasing numbers were whirled into the vicious circle of poverty and unemployment.

The Problem to be Faced.

The problem now facing England, and most of the civilised world, is how to convert desire for good things into economic demand for them; that is, how to enable them to be paid for; how to increase consumption, and set all the latent forces of production at work.

No one will dispute that an important factor in doing all this is the establishment of a sound money system. Many, various, and conflicting are the opinions on this subject. Here the orthodox view is that gradual deflation and a return to the gold standard are the way of salvation; in Germany the printing press turns out marks by the billion until they have become worthless abroad and internal prices have soared to incredible heights; yet in Germany there is no unemployment, and new buildings and tangible wealth of all kinds show a phenomenal increase, while in Britain there are a million people seeking work, and even houses for the workers to dwell in cannot be built because there is no money to build them.

Germany is wrong in issuing currency which represents nothing, and in thus constantly depreciating the mark so that it becomes impossible for

her to purchase abroad; but England is equally wrong, worshipping the fetish of a "sound currency," in clinging to a money system which makes it impossible for a vast proportion of her people to buy anything at home.

How to Banish Unemployment.

In this article I am going to preach utter economic heresy, asking whether, when orthodoxy has led us to damnation, reasoning people should not at least give heresy an intelligent hearing. By its adoption I shall try to show that, at no cost to anyone, unemployment in the United Kingdom would immediately be wiped out of existence, that profitable markets would be found for the staple products of the Dominions in any quantity, that trade with the backward countries of Europe would be made easy without the need of voting credits, and that the problem of reparations would be in great measure solved to the advantage of France and Germany as well as ourselves.

When we begin to learn political economy we are told that a main function of money is to represent goods and to facilitate their exchange; but we soon learn that money very frequently represents nothing, and that as a rule it is not the servant of trade and commerce but its master. Great financiers are able practically to dictate what goods shall be made and sold, and even to decide whether the making and selling of goods shall cease for a time and be replaced by war. This is wrong. The ideal money system would be one under which every exchangeable object had a money token representing it, so that the object should become the property of anyone offering the token in exchange.

Minimum Prices for Staple Products.

To devise and apply such a system is impossible, but an approach to it can be made by assigning minimum prices to each of a very large number and variety of staple products and useful articles of which the world has never yet had enough to satisfy its needs, though frequently the supply of some of them is far in excess of economic demand. Take bread, for example. Britain has not enough wheat, while it has children hungry—and there are millions of them—yet there is far more wheat on offer than the people can buy. Cotton also. We export cotton goods from this country because there is no demand for much of what we manufacture, yet England has not enough cotton nor linen, while large numbers of people go ragged and dirty and their houses are without sheets or curtains, because decent apparel and surroundings are beyond their means.

This is what is meant by saying that the world has never had, and for a long time is not likely to have, enough of the articles for which it is proposed to fix a minimum price. The list is a long one, including wheat and all the other food grains, gold, silver, iron and all the other metals, wool, cotton, linen, jute, hemp, etc., tea, coffee, cocoa and sugar, butter and tallow, coal, coke, timber, rubber, cotton seed, copra, salt, and hundreds of other primary products which are not rapidly perishable, and of which standard grades can be fixed. It would also include some manufactured

articles which are universally in demand as the raw product of other industries. Among them would probably be flour, tinplate, certain piece goods in cotton and linen, yarns, aniline dyes, steel rails of standard weights, copper and other wire of various gauges, red lead, white lead, ammonia, sulphuric acid, nitric acid, and various universally used articles of metal. The more of such things that could be included in the list of goods for which a minimum price was fixed, the more advantageous it would be for a manufacturing country such as England, and the wider would be the basis of the money based upon the goods.

How to Fix the Price.

Two questions will now naturally arise—first, upon what principle would the minimum prices for all these articles be determined; and, second, how, when determined, could the price be secured to those who might produce the goods?

The price of any article in the list should be high enough to induce those who normally raise or manufacture things of the kind to turn them out in large quantities. This would involve fixing a higher price than is obtainable in England to-day for many goods in which the market is depressed. Provided the price were sufficient to encourage production, its exact amount, for reasons to be explained later, would not be of vital importance, though, of course, it should not be deliberately put higher than is needed, on the present general price level, to give a fair return to the capital and labour employed.

The more important question is the second—how is the minimum price to be made effective? This, in my scheme, would be accomplished by an undertaking from the British Government to buy any quantities of any articles on the list, delivered into stores at specified places in the United Kingdom, and to pay for them with British Government notes of one pound and upwards to any sum required. Goods would be accepted from any part of the world.

No Cost to Government.

Though I use the world "pay," it should be noted that payment for these goods delivered into store would cost the British Government nothing. The notes given to the depositors are really in the nature of receipts or warrants for the goods deposited, which would be handed out again on delivery of notes or receipts to the amount originally given in respect of any of them. It is an essential part of the scheme that the Government shall not trade in the goods for which the minimum price is guaranteed, but shall merely receive such quantities of them as it is asked to take in, giving notes in exchange, and that it shall pass the goods out again when notes to the equivalent value are handed in. When prices in the open market are higher than the guaranteed minimum none of the goods on the list will go into store, but the knowledge that the minimum price is always obtainable will enable producers and manufacturers to go ahead full blast with their industry, undeterred by the fear that the market may collapse, leaving them with unsaleable stocks and forcing them to dismiss their workmen. Not one trade, but a hundred, will be inspired by know-

ledge of this security; the profits made by these trades and the wages earned in them will all be in circulation, buying the products of all other industries and thus making profits for them and prosperity for people all round. In these circumstances, is it not demonstrable that unemployment must disappear?

An Automatic Check on Inflation.

It may happen that the English market or the world market cannot absorb immediately the whole product of some industries for which a minimum price is guaranteed. Copper, zinc, silver, or wheat, let us say, are in excess. They accordingly go into store, and notes are issued to their depositors. Suppose that there is such a temporary excess of the articles mentioned that fifty million or a hundred million pounds' worth of notes are issued against them, and go into circulation. The worst that can happen is a temporary inflation, depreciating the value of money, and causing prices to rise. It cannot, however, raise the prices of the articles which exist in quantities exceeding demand, and are consequently stored. No one will pay more for them than the price at which the stores will sell them, and, on the assumption that other goods have become dearer, these dearer goods will be more profitable to produce. Capital and labour employed in turning out the grain or metals of which there is too much will gradually grow less. The existing stocks will be drawn upon and, as they are depleted, notes paid for them will go out of circulation, and other prices will gradually fall. Thus an extravagant production of one article, or a dozen articles, will automatically cure the mischief it creates, not as it does now, by causing the market in those particular articles to slump, bringing ruin to the producers and inflicting great damage on trade all round, but by making other forms of industry relatively more profitable and consequently more attractive. The wheat grower and the mine owner who has produced in excess of present demand can still get his fixed price, but the man who grows or manufactures something else can get more. Capital and labour will have the opportunity to move soberly and safely from an excessively producing trade, if required, instead of being driven out of it by bankruptcy and dismissal.

Increased Consumption of Goods.

Further, it should be mentioned that, if goods of which there is no surplus become relatively dear by inflation of the currency, those which are down to the fixed minimum price become relatively cheap and will attract purchasers. They will therefore be bought out of the stores and the inflation will be reduced from both sides at once—by decreased production and increased consumption of any article in excess of market requirements.

I have assumed above that things such as food grains or the useful metals might be produced on such a scale that they could not be consumed and would accumulate in great quantities, causing an inconveniently large total of notes to be issued against them. This, however, is unlikely. The world has never had enough of these things. If English people, not to

mention the impoverished peoples of Europe, ate as much bread and were as well clothed as Australians and New Zealanders, there would not be too much wheat and wool in the world to feed and clothe them, and surpluses stored would be temporary and small. For iron and steel, timber, coal, and all other useful things also, the world's demand would be difficult to over-supply, when the world's need was gradually translated into demand. One has only to set the world to work by assuring it of a sale for what its work produces, and this approximation of demand to need will be astonishingly rapid.

Safety for the Banker.

At present, when nothing but gold commands a certain price in money—as gold, now worth more than the standard price, always does—fertile land and rich mines of industrial metals lie undeveloped because of uncertainty as to price. A farmer asks the banker for an advance, telling him that with the money he can bring new land into cultivation and raise 10,000 bushels of wheat. The banker's reply is: "Yes, you may raise the wheat, but what will the price be? The security is not good enough for the money." To the owner of a silver-lead mine, the banker says: "I am satisfied with your reports on the richness of the ore, but lead may fall £5 a ton before you get it. We cannot run the risk."

If the banker knew in advance, and indubitably, that 10,000 bushels of wheat would sell at a minimum for £3,500, and 1,000 tons of lead for £30,000, he could do business with his customers to their mutual advantage and that of the community. The guaranteed price for other articles besides gold would stimulate industry and minimise risk. The man who could produce useful things would know that he was making money, and would get the help in production from controllers of capital that only money can buy.

The impetus that this new and scientific money would give to the development of mines and agriculture is but one of its recommendations. That it should be helpful in all such matters is the necessary result of its being basically sound. The gold standard necessarily involves wide fluctuations of commodity prices, as the credit based upon it, which is in effect money, shrinks or expands. The absence of any standard but the needs of the Government and the capacity of the printing press, which afflicts Germany and Russia to-day, causing prices constantly to rise, with wages toiling after them, destroys fixed incomes and makes saving mere idiocy, for money which will buy something, however small, to-day, will buy less than half of that to-morrow; so the wise man struggles here and now to turn money into goods, thus causing prices still further to rise, and the mark to become of still less account.

Gold Means Alternate Boom and Depression.

The gold standard also involves in its maintenance alternating periods of activity and depression, or boom and burst. Money, based upon gold and legally exchangeable for it, is arbitrarily limited in amount. As a matter of fact the money in any country is always greatly in excess of the gold

available, and is therefore unsafe. If all the owners of bankers' money demanded gold for it at the same time, as they are theoretically and legally entitled to do, only a small fraction of them could be satisfied, and there would be universal bankruptcy. Sometimes, as in the Australian crash in 1893, following the boom years, when bankers have been rash and have not checked credits soon enough, this kind of disaster actually occurs. More usually, just when trade and industry are most active, and under a sane monetary system would continue to be so, the guardian angels of the gold fetish do their duty by it and begin to restrict credits. The blow falls alike upon the just and the unjust, the wild speculator who was heading for unavoidable disaster soon or late, and the enterprising trader whom continuance of credit would have allowed to create wealth for the community as well as himself. The banks, from their own point of view, are quite right. If there were a general demand for gold it could not be satisfied, and the banks, which have undertaken to provide it when it is asked for by those who have credits with them, take drastic steps to cut those credits down. They are obliged to do it in self-defence. So, suddenly or gradually, trade and industry are deprived of the money which is their life blood, circulation being too active and blood pressure too high, and depression and unemployment take the place of good times.

If money were based upon hundreds of useful articles whose quantities are limited only by human industry, instead of upon one article—gold—of which the supply is small and cannot be rapidly increased, there would be no need for industry to ride upon a wave whose crest is activity and its trough depression. It could go forward steadily, upon an even keel, controlling the money it required instead of being controlled by it.

The Government's Only Obligation.

In the suggestion that other things than gold should be monetised there is nothing new, and many ingenious means for doing it have been devised; but they are complicated and difficult to execute. The means proposed here, on the contrary, are simple and easy; they require nothing but the resolution of a British Government, guided by expert advice in framing the scale of prices, to put them into effect.

The cost to the nation would be nothing but the expenditure required to build and maintain storehouses for surplus goods. Against that would be set the saving on doles to unemployed and maintenance of paupers, and the added revenue drawn from a people all prosperously at work.

This fact—that the purchase of the world's surplus goods will cost the nation nothing—is of vital importance. Opponents of the scheme begin—and usually end—by ridiculing the idea that Britain "can finance the world's industry," "can pay for unlimited quantities" of even the most useful goods. They forget or ignore the radical difference between paying or financing in the ordinary sense, which both involve parting with or risking something costly, and the payment which it is proposed that the British Government should make for goods delivered into its stores. Here there is no risk; nothing costly is parted with; no obligation is incurred by the Government except that of issuing goods to any applicant who offers notes to the agreed amount in exchange. Faith that this obligation will be observed is indeed

essential, and, therefore, only a Government such as that of Britain, which can be trusted to keep faith with depositors of goods, and scrupulously refrain from converting them to its own use or trading in them, could establish confidence in the new money. Those who take notes for the goods will have the assurance that the goods deposited by them will not be passed out of the stores again for money of any other kind than notes issued in respect of stored goods.

While the notes issued by the Government would cost nothing, they would nevertheless have value—all the value that any money has. Being the currency of the United Kingdom, and legal tender for the payment of any amount, they would purchase all goods and services in the British market at the current prices ruling there.

Notes Issued Against Goods.

In international exchange, notes issued against goods would, at the least, purchase the goods against which they were issued at their face value. Unless some goods were in excess of immediate market needs and were therefore sold into store, no notes in respect of them would be given out. If the notes were given out and went into circulation it is obvious that stored goods could be purchased with them; for in these goods which the stores had bought because the supply exceeded the demand, the minimum price given by the Government would obviously be the maximum that anyone could obtain. They would be available in exchange for notes at any time.

Valuable Everywhere.

Herein lies the answer to those who say that the new money would inevitably become depreciated. Because it is turned out by a printing press they instinctively regard it as analogous to the depreciated notes of Russia and Germany, which must be printed in denominations of millions, or taken round in cart-loads to pay for a shilling's worth of goods. In fact the proposed Government notes have nothing in common with those mentioned above. Russian and German notes are issued against nothing; mine are issued against goods. They are tokens for goods, and when the goods have gone the tokens disappear. They are in circulation no longer. They have an advantage over even the existing British Treasury notes, which may become depreciated if issued in excess, for this excess causes a rise in all prices, and thus diminishes the purchasing power of the notes for every article whatsoever. An excess of the new notes might raise the general level of prices, but the notes could not become depreciated to the same extent as any other money, because their purchasing power would remain intact, if they were used to buy any article in the Government stores. The notes issued must always have value in every part of the world since they will buy some one at least of many articles of universal use at the price for which the article was sold.

Help to Trade with Undeveloped Countries.

Turning now to other aspects of the question, consider the help this new money would give to trade with undeveloped countries with uncertain

exchanges and disorganised finance. A ship's cargo arrives from Russia or Poland, of timber, jute, petroleum, or anything else on the list. The ruling market prices may be above those offered by the stores; but the owners of the cargo, who are perhaps the foreign shippers themselves, may know very little about British markets. Nevertheless, they need not fail to trade, and go empty away. They can obtain the minimum price in notes at the nearest Government store, and with the notes they will buy the British goods of which they are in need. British manufacturers and merchants will increase their sales, and get cash for their wares without trouble or risk from buyers with whom it is now almost impossible to trade. The foreign goods will sell themselves. Owners of British goods will see to it that theirs are sold to eager purchasers who have the money to buy, and thus our export trade to Europe will be restored.

Germany has much that we need and much that she longs to sell. Chaotic exchanges and the fear of having cheap goods dumped upon us stand in the way of trade. With the new money these difficulties melt away. We can take from Germany as much aniline dye, timber, iron, grain, or sugar as she can sell, without danger of killing any British industry. Whatever the foreign competition, it will still be sure of getting its minimum price. The notes which Germany receives will be available to buy from us, to better her exchange, and to pay reparations to France and ourselves. However they are used, their receipt by Germany must help to bring us new customers and employ our people. It is an outstanding advantage of the new currency that it protects British manufacturers under conditions of absolute free trade. So British farmers, too, will have no cause of complaint. All the wool and wheat and butter and cheese of the Dominions can come into this market and all receive a paying price, which will be fixed on the basis of the English farmers' reasonable needs. Further back I expressed the opinion that the exact amount of the price fixed for any article was not of vast importance, provided it was sufficient, and no more, to induce at the present time active production of useful things. This opinion is founded on the fact that in the past twenty years there have been enormous differences in the prices of grain, metals and other things, of which production, though hampered by uncertainty, has still continued. Production would proceed much more vigorously if a middle price for these things were chosen and uncertainty lessened, for round about the minimum prices would tend to remain.

Keeping Wheat Prices Steady.

To illustrate the argument above, let us suppose that a phenomenal wheat harvest and a surplus send 20 million quarters into store. Such a surplus now would bring prices down with a run and ruin many farmers in the fall. Next year there would be less wheat grown; the harvest might be poor, and prices would rise to an exceptional height. Great profit would be reaped by speculators on the surplus wheat stored from the previous year.

Under the new system in the good year farmers would get the full price for their crop; in the succeeding bad year consumers would get full value for their money, for profiteers or speculators could not raise the price of the 20 million quarters stored. It would come dribbling out of the

Government granaries at precisely the same price as that at which it went in, and the new wheat could sell at no higher price in the same market until the old wheat had all been consumed. The new money would be a compensating balance preventing extravagant rises and falls.

Safety from Financial Crises.

One objection raised by an economist to whom this scheme was submitted is that the mere promise by the Government of minimum prices for any quantity of cotton, coal, iron, et cetera, would cause such a boom in trade, and such an extension of credits, that all prices would rise above the minimum, which would consequently become ineffective, and that eventually this boom would burst. Then depression would come again. If this should happen, at least the unemployed would vanish for a time—no small blessing in itself—and there would be none of the predicted depreciation of the currency by over-issue of notes, for no goods going down to the minimum price, no notes would be issued. The depression, if it came, would have other causes—the curtailment of credits which could not be redeemed in cash, and the consequent slackening of production and purchasing power. Such a depression on a gold standard may be created at any moment, for there is never sufficient gold to go round if it were asked for, and bankers, in effect, have to make an arbitrary guess as to the disproportion between cash available and credit given that can be safely allowed to continue, and as to when they should put on the screw. Cash, which is gold only, cannot be created at will.

Cash, on the other hand, which is notes based on goods, can be created when required by producing the goods, and thus a shortage of cash can be quickly remedied. To take a low minimum price when a high price has been ruling may not be pleasant, but it is a much less unpleasant alternative to put iron or wheat into store, thus securing money to pay debts, than to have credit stopped in an acute depression, and to have no certain market at any price for one's wheat or iron.

Whatever monetary system be in force, poverty or depression following national extravagance, when consumption has outrun production, can only be cured by getting down to work and spending less and making more. When money is based on goods instead of gold, there need be no check whatever to booming trade by want of cash, so long as goods are being made as fast as they are consumed.

It is of the utmost importance to remember that the one thing essential to end a financial crisis is money. In present conditions, at such times, it is the hardest of all things to get. Ownership of useful goods and valuable securities will not ensure it, for prices tumble down into the depths, securities become worthless, and values melt away. Under the scheme proposed this cannot happen in regard to any of the goods upon the guaranteed list. They are as good as money, and can be converted into money when required.

The Great Importance of Money Reform.

There is not space here to answer in advance one half of the objections that will be raised, nor to quote from the great literature or money

authorities that support my view. In their destructive criticism of existing systems, if not in explicit condemnation of this one, which so far as I know has never been proposed before, there are plenty of such authorities to be found. What is needed, however, is a plan which will work, and which the ordinary intelligent man can understand. Such plan I believe the one outlined in these pages to be, and one also that could be put into effect at once without injury to a single person, and with immense benefit to millions.

It is indisputable that there are industries here, such as coal mining, iron and tin mining, cotton manufacture, and others, which would immediately, between them, employ hundreds of thousands more men if good prices were guaranteed for all that they could produce. The coal miners, being employed, would buy cotton and goods made of iron; the cotton spinners would buy coal and iron; the tin miners would buy cotton, iron and coal. All these industries would use the railways, which would in turn need their products, while the railwaymen and all the others would be buying food and clothes and boots, and manufactured goods of a hundred kinds. These facts are indisputable; and when every trade needed more hands, where would unemployment be? "So," says someone, sarcastically, "you propose that we shall live by taking in one another's washing?" Nothing of the kind is proposed, and the talk of taking in one another's washing is characteristic of those who do not understand economics. The proposal is that we shall live by exchanging the products of our own industry for the products of the industry of someone else. Industrially, there is no other way that the world can live at all.

A new money system is not the only great social reform needed for continued prosperity. The land monopoly as well as the money monopoly must be abolished in order to establish economic justice, kill poverty, and sweep the clogs upon industry away. A great beginning might nevertheless be made by reforming money, and there is a general feeling abroad that it must be reformed, which might be done on the suggested lines without arousing interested opposition from any but a few. No doubt they are a powerful few, and they speak with an almost priestly authority, which the ordinary man seldom dares to dispute. Nevertheless, I hope that reason will ultimately prevail over superstition in theory of money, as it has done in other realms of knowledge, and that the views put forward very imperfectly and incompletely here, may prove helpful to so desirable an end.

Procedure When Goods are Destroyed.

Since the above was published in THE BRITISH-AUSTRALASIAN, various critics have raised points and objections, some of which I shall endeavour to answer here.

It is asked, for instance, what could be done if goods which had been put into store were burnt or otherwise destroyed, or if they went out of use or deteriorated to such an extent as to become practically valueless. Such a thing would sometimes be bound to happen, but the remedy is simple. The value of the notes in circulation depending upon their exchangeability for goods of the same quality and utility as were stored

when the notes were issued, it becomes necessary to cancel notes equivalent in value if goods are destroyed. A fire, let us say, burns a million pounds' worth of wheat. Then the Government must cancel a million pounds' worth of notes. It will have these notes in its possession, having received them in payment of taxes, or for telephone fees, licences, etc. Should it not have the notes it would purchase them.

If goods deteriorated seriously they would be sold. By whatever amount the sum realised by the sale fell short of the sum of the notes issued for the goods which were sold, notes to the value of the difference would be cancelled. Thus the exact balance between the goods stored and the notes in circulation would be preserved.

Loss Minimised by Wide Distribution.

The nation would lose by the destruction or decay of the goods in its care. That cannot be denied. If, however, the goods had been in private hands then the loss would equally have occurred. It would have been borne by the individual owner if the goods were not insured; it would have been more widely distributed and less heavily felt if they were insured; and it would be most widely distributed and felt least of all by individuals if it fell upon the whole nation, as it would under the plan proposed. Only the nation as a whole could possibly carry such losses as those incurred by the destruction and the muddling of the war, ten thousandfold greater than any that could possibly result from the burning or decay of material wealth deposited in Government stores.

Cost of Storage Not Great.

The alleged great cost of storage is another point urged against this proposal. What it would be it is impossible to say, but suppose it amounted to twenty or thirty million pounds, this, after all, is a mere trifle compared with the cost to the nation of unemployment and stagnant trade. It is obvious that, if tens of millions of pounds had to be spent on storing goods, the producers of these goods must have received hundreds of millions of pounds which otherwise they would not have received, for if the price were obtainable in the open market the goods would not have been put into store. The fact that they are deposited there in return for the minimum price, is proof that if it were not obtainable the goods would not have been produced; and that the wages paid and profits made in their production would not have been available to purchase the products of other industries, and to pay for services of very many kinds. There would, in fact, have been depression, which the existence of the stores, ready to take any quantity of goods at a fixed price, relieves. Thus, I maintain, that if much money has to be spent on storage the nation will receive abundant value for its outlay.

Banks Will Advance Against Goods.

There are factors, however, which would greatly restrict demands upon Government storage. As argued earlier in this article, with everyone

employed, consumption of all goods would enormously increase, and surpluses of anything would be small. And when goods were produced in excess of immediate demand, the owners, instead of storing them with the Government and receiving cash, could borrow on their security from the banks and receive credit. The banks which lent to the owners would be absolutely safe, for, if necessary, they would insist on the goods being exchanged for cash. In the meantime it might well be more profitable for the owners of the goods to pay interest on an overdraft, than to incur the cost of transporting their produce to the stores and getting paid in notes. The interest charged by the banks should be moderate, for the security would be perfect: the price being guaranteed, it could not fall.

Reserves That Would Minimise War Risk.

For the reasons stated, demands upon storage would be limited. They might be made at certain times, when, for instance, there was a super-abundant world harvest, for England would tend to become the recipient and storehouse of all the world's surplus staple goods. In bringing this about, adoption of the new money scheme would lessen a great danger to this country in the event of war, by automatically giving us those reserves of food and raw material, the lack of which causes such apprehension that their artificial establishment at very heavy cost is very often proposed. In time of peace the transport to this country of the grain, the metals, the fibres and other products for which there was no market abroad, and their transport thither when they were required, would be a magnificent thing for British shipping. British ports would be phenomenally busy when Britain became the entrepot market for the surplus goods of the world.

Encouragement to Empire Trade.

Earlier in this article it was claimed that money based upon the staple goods of the world would greatly encourage Empire trade. Preference is asked in British markets for Dominion products: English farmers are demanding protection for their grain, or a bonus to help them against foreign competition. On nothing for which a price was guaranteed would there be any need of preferential or protective duties. Whether meat could be included in the list I do not venture to say. Probably it could, for frozen meat will keep without deterioration for some months in cold stores: but even were it excluded, wool, wheat, barley, oats, butter, leather, timber, tallow, cheese, currants and raisins, tea, coffee, sugar, and many other articles exported from the Colonies, would have a safe unlimited market, unaffected by foreign competition. Nor would the British farmer be troubled by the competition of the Dominions. He would get the guaranteed minimum for his wheat, barley and oats, whatever quantities were imported from abroad, and it is understood that the price should be one high enough to give capable farmers a fair return.

Stabilisation.

While the proposal made here is to fix a minimum price only, and not to attempt the limiting of prices, which experience has proved to be impossible, it would nevertheless tend to that stabilisation of prices which

is, above all else, to be desired. It would do this because, when any article on the list was produced in excess of demand and deposited in the Government stores, no one who offered this article on the market could obtain more than the minimum price, until the stores were emptied. They would sell at that price to anyone presenting the notes in exchange for goods. Thus abundant production for anything would tend to stabilise its price, to the great advantage of everyone concerned.

Would Britain Suffer in Exchange?

There remains to be answered explicitly the objection which has been implicitly answered already, that to issue English pounds in exchange for stored goods must depreciate the pound relatively to other currencies, and thus make it harder for us to discharge debts due to other countries, notably to America. The assumption is that large issues of paper money are the primary cause of unfavourable exchange in the country issuing it. This I believe to be a wrong assumption. Large issues of paper money, in my view, are rather an effect than a cause of bad exchange, of which the main and universal cause is the necessity or the desire to obtain goods or money from other countries without having an equivalent in goods or gold to offer in return.

German and Australian Experience.

This was the trouble in Germany. Francs and pounds were imperiously demanded in payment of reparations; raw material was urgently needed for German factories. These could be bought only with pounds, dollars or francs, and as this money could not be obtained in sufficient quantities by the sale of German goods, it had to be purchased with paper marks. Therefore the printing press was set to work to turn out marks in sufficient quantities to induce the holders of dollars and pounds to part with enough of them to meet immediate German needs. It was the trouble of Germany that created the bad exchange, rather than the bad exchange that created the trouble, though doubtless each reacted on the other.

To take another instance. About two years ago exchange with England was so greatly against Australia that it was impossible to get money here to settle debts, except at ruinous rates. Yet there had been no new issue of paper money, no inflation. The simple fact was that Australia had not the goods available here to pay interest charges upon loans and the purchase price of British goods imported, while the transfer of gold was not permitted. The position was eventually righted by diminished import of British goods and increased export of Australian goods to Britain. Everywhere, I believe, it will be found that when exchange is against any country, that country is buying, or has bought, and must pay for, more goods than she can export in return. She has therefore to buy the money of the other country with her own, and must pay the price which the holders demand for it. Consequently she suffers from an unfavourable exchange.

The British Debt to America.

Now, why, if Britain issues large quantities of paper pounds against goods which she holds, will she find it harder than it is now to find dollars to discharge her American debt?

The world's commodities will not come to this country, and the British notes will not be issued, unless those who send the commodities value the money they receive. If the goods do come here, they cannot go to America where a proportion of them will be required, and they can be obtained from here only by paying for them with British pounds. To obtain these pounds America must give us dollars, or goods, and with the dollars so obtained, and those obtained for British goods of every kind which America requires, our obligations will be discharged. My critics and I stand on common ground in agreeing that, if Britain takes more goods from America at their dollar price than she takes from us, we shall be adding to the size and burden of our debt. What they fail to prove, and what I submit is unprovable, is that we shall make it harder to secure dollars to discharge that debt by issuing pounds against any quantities of useful goods that may be given to us in exchange for pounds. The owners of the goods will take the pounds in exchange only while they value them more than other money that they might receive instead. They must use the British pounds either here or abroad. If they find it pays them to take our minimum price and spend the British money abroad, it can only be because it is not depreciated. If they spend the money in England, it comes into English hands, and is available to English buyers wherewith to buy, at the minimum price, the goods which are stored.

The English pound, based on the world's goods, can never depreciate, because it will always buy goods which are required by the world.

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